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SUBJECT: Argentina Economic and Financial Review, February 5-February 12, 2010

¶1. (U) Provided below is Embassy Buenos Aires' Economic and Financial Review covering the period January February 5-February 12, 2010. The unclassified email version of this report includes tables and charts tracking Argentine economic developments. Contact Econ Deputy Jason Witow at WitowJN@state.gov to be included on the email distribution list. This document is sensitive but unclassified. It should not be disseminated outside of USG channels or in any public forum without the written concurrence of the originator. It should not be posted on the internet.

BEEF PRICES UP 80-100% SINCE DECEMBER 2009

¶2. (SBU) In January 2010, the price of a kilo of beef rose between 80-100 % from ARP 7 to 13-15.5 compared to December 2009 prices, according to the president of the Chamber of Industry and Commerce of Beef (CICCRA), Miguel Schiaritti. Argentines spend 8% of their food budgets and 4.5% of their total income on beef, which is fundamental to the Argentine diet. Economy Minister Boudou explained that the sharp recent increases in the prices for beef and milk were "an adjustment," unconnected to inflation, which was officially pegged at an annual rate of 7.7% for January, half the rate estimated by most private analysts. Javier Paz of the consulting firm Ecolatina explained that the rise in beef prices is a consequence of the reduced availability of beef in the marketplace, since from 2007 to 2009, livestock fell 13%, from 61 to 53 million head. The newspapers El Cronista and Clarin cited the severe 2009 drought, the policy of freezing livestock producers' sale prices, the periodic prohibition of beef exports (policies begun under the administration of President Nestor Kirchner in 2006 and continued by President Cristina Kirchner), and reductions in payments to feedlots as additional reasons for the price rises.

¶3. (SBU) Minister of Agriculture Julian Dominguez is currently working on a plan to increase the supply of beef by stimulating breeding and discouraging the slaughter of calves. Interior Secretary Guillermo Moreno reassured meat processing plants and butchers that current beef prices are seasonal, and will decrease by March 2010.

Pensions to rise 8.2% in March

¶4. (SBU) President Cristina Kirchner announced February 9 that incomes for retired citizens and pensioners will rise 8.2% beginning in March 2010. The minimum monthly income for a pensioner will increase from ARP 827 to 895, and the maximum will increase from ARP 6060 to 6558. Almost 6.5 million retired people and pensioners -- both contributory and non-contributory -- will benefit, as will over 20,000 Malvinas veterans. According to ANSES (the National Social Security Administration), monthly retirement income has gone up about 500% since 2003, from ARP 150 to almost ¶900. This pension increase is the first of the two increases for 2010 mandated by the Retirement Mobility Law, which went into force at the end of 2008.

Argentines cannot afford to buy property

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¶5. (SBU) According to a study by Reporte Inmobiliario, published by La Naci???n on February 9, a 60-square-meter apartment in the city of Buenos Aires sells at an average price of USD 78,000. A 15-year loan for 70% of this value with a 15.2% annual interest rate (lower than market average) requires a monthly installment of approximately ARP 3413 (USD 882). Banks require that mortgage payments not exceed 30% of monthly income, so purchasers must give proof of monthly income above ARP 11,377 (USD 2,940). A study from CERX (Centro de Econom???a Regional y Experimental) estimated that just 5% of the country's households can afford such a loan, and if the analysis is extended to the rest of the country, just over 10% of households would be eligible for a loan to buy average-sized properties.

¶6. (SBU) High interest rates, inequality in the distribution of wealth, low saving rates, sustained property price rises, peso devaluation, and reluctance by banks to loosen requirements are the main factors putting home ownership out of reach for most Argentines. Mortgages in Argentina comprise just 1.1% of GDP, much lower than in previous decades and compared to other countries in the region. Some attribute this to the growing gap between household income and property values. A study from the Universidad Argentina de la Empresa (UADE) determined that purchasing power per square meter fell 55% between 1997 and 2009, and a full 11.3% between January and October 2009. According to CERX, Argentines view property as a safe place to put long-term savings. However, only 14.9% of households save any income, and of those, only a third buy property. According to ZonaBancos.com, only 17 banks offer mortgages, be it for purchase, construction, or renovation. Banco Hipotecario is the most active, followed by Banco Ciudad and Banco de C????rdoba.

Industrial productivity decreased 5.9% in 2009

17. (SBU) According to the Studies Center of the Argentine Industrial Union (UIA), manufacturing activity decreased by 5.9% in 12009. However, more positively, it noted that activity increased by 13.1% in December 2009 compared to December 2008. UIA said that "by maintaining this favorable trend, average quantities produced in the following months should exceed the results of the first half of 2008." The UIA cited the world financial crisis and its negative impact on the Argentine economy as the major cause in the overall decrease in industrial production in 2009. The December 2009 turnaround is mainly due to the recovery of the iron and steel, automobile, and metalworking sectors. Despite the 55% y-o-y decrease in 2009 versus 2008 in the automobile sector, there was a 99% increase in December 2009 compared to a year earlier.

18. (SBU) Exports decreased 20% overall in 2009 versus 2008, but increased by 67% during the last two months of the year. In December 2009, imports also increased 4% compared to a year earlier. While automobile sales decreased 1.4% in 2009, November and December saw sales increase 21% compared to the same period a year ago. Metal working production increased 4% y-o-y in December, while food and beverage production decreased 9.1% in the same period.

19. (SBU) The Metallurgical Industries Association published a survey in which 65% of the firms questioned were optimistic that production will continue to grow in the coming months. 35% believed that industrial activity will remain static at December 2009 levels and 13.5% believed that production will decrease in

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12010.

USDA expects record soybean harvest

110. (SBU) In its February World Agricultural Supply and Demand Estimates report, USDA's Argentine soybean forecast remained unchanged at 53 million tons, a record level. According to a study published by the Soybean and Corn Advisor, MERCOSUR's total output will reach 128 million tons, 13 million tons above the regional record from two years ago. Argentina is currently the world's third largest soybean exporter, and the world's top soy meal and soy oil exporter.

111. (SBU) The USDA expects a 9 million-ton wheat harvest, up a million tons from previous projections, and also revised wheat export numbers upward from 2.5 to 3.5 million tons. USDA projected that the corn harvest will reach 17.2 million tons, 2.2 million more tons than previously expected, with export forecasts going up from 8 to 9.5 million tons. National estimates put the corn output at 20 million tons. Regardless of which figure is correct, Argentina is likely to have a large oversupply of corn. The government restricts exports to about 3 million tons, and internal demand amounts to between 7-9 million tons for the year, leaving 5-10 million tons with no market. Internationally, record output

is also expected in the U.S., which will likely accelerate downward pressure on prices. Local analysts hope that the government will approve additional export permits for the excess crop.

LONG-AWAITED NUCLEAR PLANT WILL OPEN IN 2010

¶12. (SBU) Julio De Vido, Minister of Federal Planning, announced that the nuclear power plant "Atucha II," located in the province of Buenos Aires, will come online during the second half of the year, after decades of delay. The plant will add almost 700 MW of power to Argentina's electrical power grid (3% of total country's output) and boost the total nuclear contribution to Argentina's energy output to about 9%. Companies participating in the project include Dycasa, Techint, Siemens, Iecsa, and Electroingenieros, among others.

¶13. (SBU) Atucha II's construction began in 1980, with an expected completion date of 1987, at a total cost of USD 1.8 billion. Work on the project slowed and was completely halted from 1990- 2004. Then-President Nestor Kirchner re-launched the project due to a severe shortage in electrical production. Atucha II's predecessor, Atucha I, came online in 1974 and currently produces 360 MW of energy.

MARTINEZ